



Business Risk Management

The Wave of the Future

Presentation to the ASMC

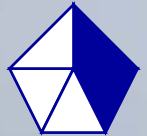
May 30, 2001

**Gil Gardner, ASN(FM&C), Office
of Financial Operations**

AGENDA



Consequences of Unmitigated Risk



Risk Management Concepts



Risk Management Approach



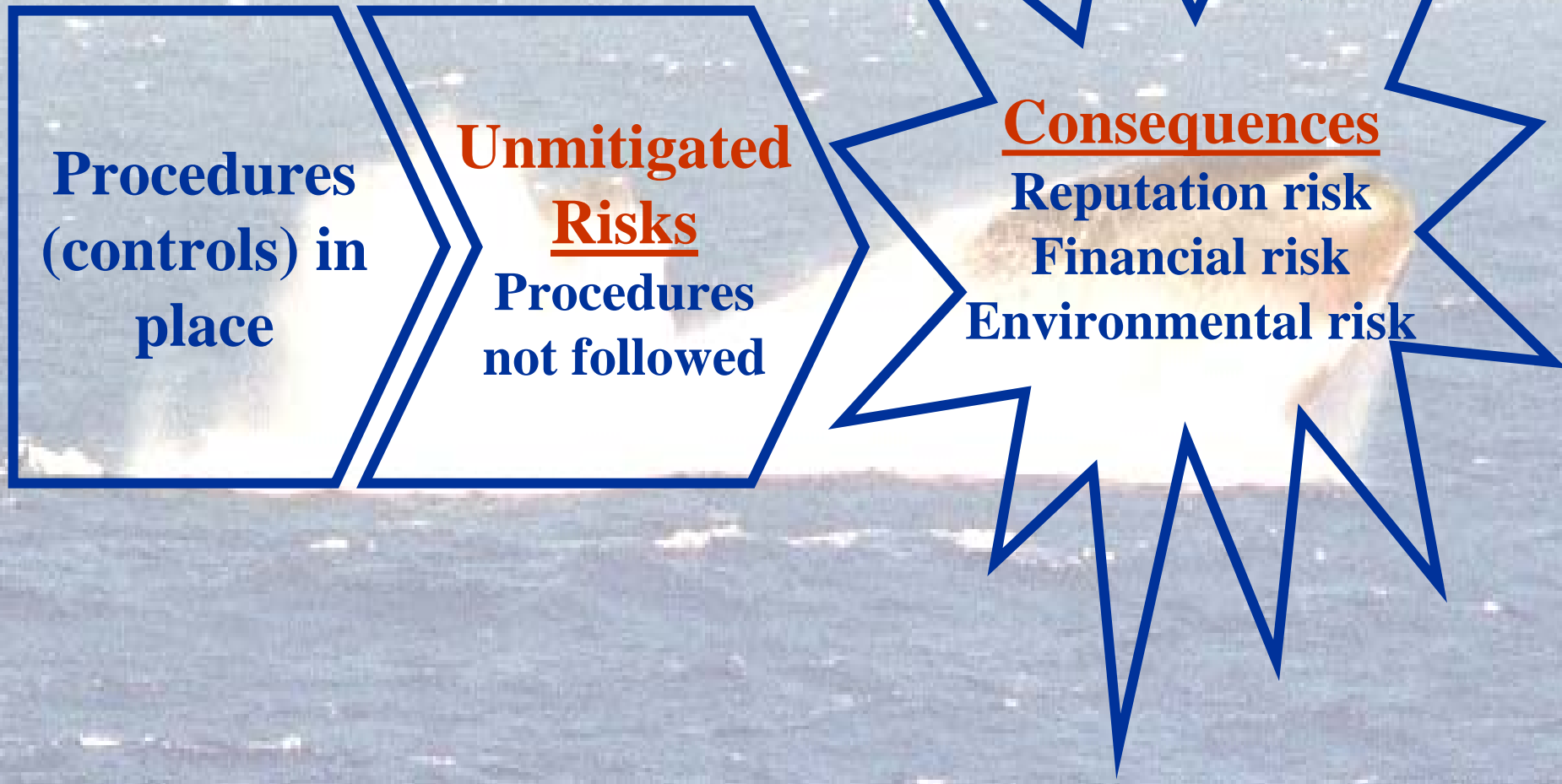
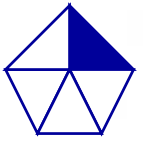
NAVFAC Pilot Program



Risk Management Opportunities

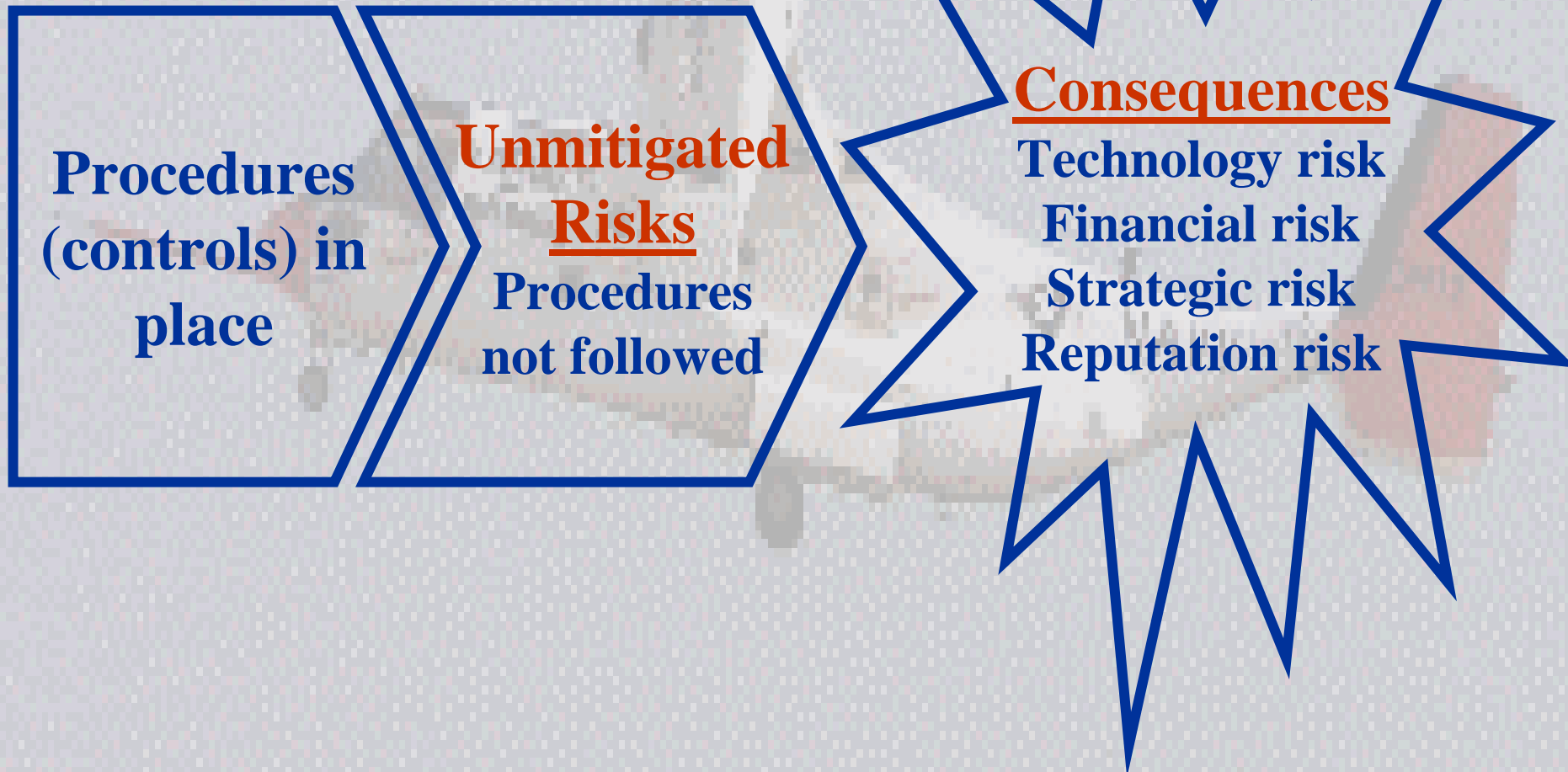
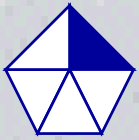
CONSEQUENCES OF UNMITIGATED RISKS

USS Greenville



CONSEQUENCES OF UNMITIGATED RISKS

V-22 Osprey



CONSEQUENCES OF UNMITIGATED RISKS

USS Cole



Some
procedures
(controls) in
place

**Unmitigated
Risks**

Procedures
inadequate or
not followed

Consequences

Operational risk

Financial risk

Environmental risk

CONSEQUENCES OF UNMITIGATED RISKS

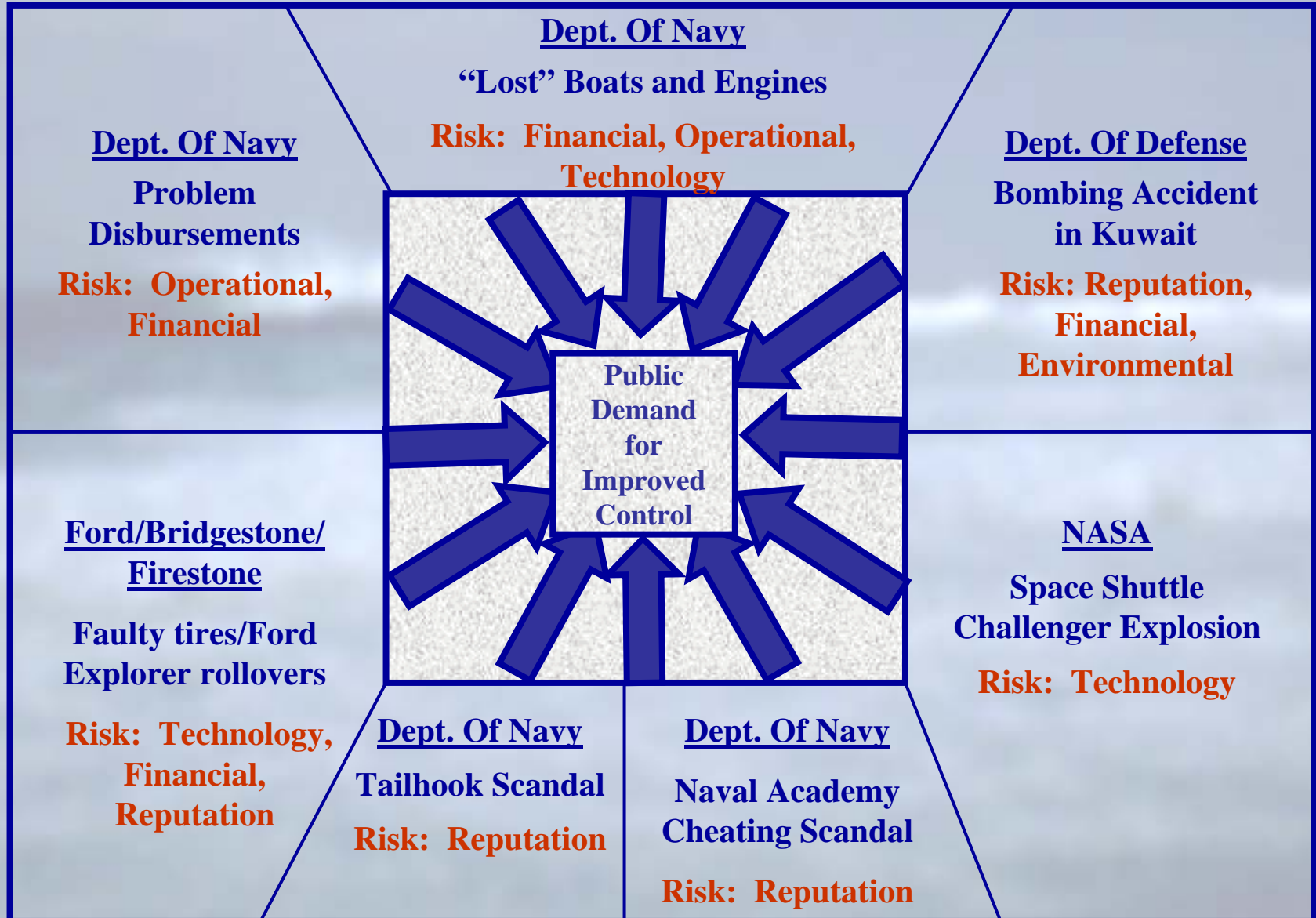
Centrally Billed Accounts



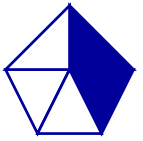
CONSEQUENCES OF UNMITIGATED RISK



Reasons for Control



RISK MANAGEMENT CONCEPTS



The Risk Continuum

DANGER

**HIGH
RISK**

VS.

Opportunity

RISK MANAGEMENT CONCEPTS



What is Business Risk?

“Any event or occurrence that could jeopardize the achievement of the organization’s mission.”

RISK MANAGEMENT CONCEPTS



Types of Business Risk

Operational Risk

Operational policies/procedures/instructions do not sufficiently control business to allow achievement of mission

Environmental Risk

Operations or activities adversely affecting the environment

Human Resources Risk

Management and staff not sufficient to meet needs and mission of organization

Reputation Risk

Negative public opinion

Technology Risk

Systems and technology tools, in design and operation, do not allow achievement of mission

Strategic Risk

Mission/strategic plan does not support overall DON objectives

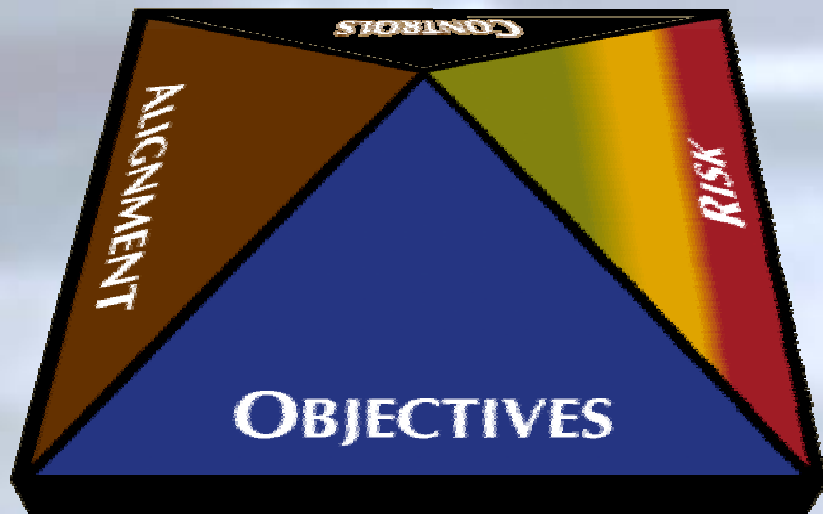
Financial Risk

Loss of assets or available operating or capital budget

RISK MANAGEMENT CONCEPTS



A Common Framework



Though risk thinking can be viewed as management ‘common sense,’ it is not often common management **practice**. Therefore, a framework and methodology creates a systematic approach to identifying business risk and controls to manage or mitigate those risks.

RISK MANAGEMENT APPROACH

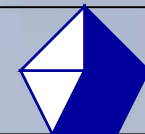


Basic Risk Management Strategy



Management Control Program (MCP) Assessment Framework

EXPECTATIONS BY COMPONENT



A Progressive Environment Assessment	B Business Risk Assessment	C Management Controls (MCs) Assessment	D External Validation
<i>Self-Assessment of Business Environment</i>	<i>Self-Assessment of Risks</i>	<i>Self-Assessment of Control Activities</i>	<i>Audit Testing</i>
<p>1. Strategic Perspective:</p> <ul style="list-style-type: none"> a) Mission, vision b) Values, philosophy <p>2. Internal Environment:</p> <ul style="list-style-type: none"> a) Culture, attitudes b) Organization structure c) Authority d) Human capital management e) Strengths, weaknesses <i>(e.g... resources and systems)</i> f) Assessable units g) Risk Categories <p>3. External Environment:</p> <ul style="list-style-type: none"> a) Customers, competitors b) Relationship with key stakeholders c) Business partnering d) Business opportunities 	<p>1. Risk Identification:</p> <ul style="list-style-type: none"> a) Identify risks b) Analyze c) Rate risks (high/low) <p>2. Risk Mitigation:</p> <ul style="list-style-type: none"> a) Develop strategies for managing risks b) Implement Strategies <p>3. Risk Monitoring:</p> <ul style="list-style-type: none"> a) Continuously track risk mitigation efforts b) Monitor business environment changes and impact on risks <p>4. Risk Reporting:</p> <ul style="list-style-type: none"> a) Determine and formalize reporting levels b) Communicate internally high risk issues <p>5. Internal certification/validation</p>	<p>1. Controls Identification:</p> <ul style="list-style-type: none"> a) Identify controls b) Rate (assess) controls (Vital/Non-vital) <p>2. Controls Improvement:</p> <ul style="list-style-type: none"> a) Identify deficiencies in vital controls b) Develop correction plans c) Implement action plans <p>3. Controls Monitoring:</p> <ul style="list-style-type: none"> a) Measure performance b) Resolve audit findings <p>4. Education and training</p> <p>5. Controls Reporting:</p> <ul style="list-style-type: none"> a) Determine and formalize reporting levels b) Communicate high risk issues (internal/external) <p>6. Internal certification/validation</p>	<p>1. Validation<i>(based on a two-prong approach):</i></p> <ul style="list-style-type: none"> a) validate the results of risk and controls self-assessments b) Assess corrective measures ---OR--- c) Test vital controls <p>2. Recommendations:</p> <ul style="list-style-type: none"> a) Improvements in the self-assessment processes b) Corrective actions if deficiencies still exit. <p>3. Implementation of recommendations.</p>

RISK MANAGEMENT APPROACH



RISK MANAGEMENT APPROACH



Assessment Tool: Risk Map

ABC Corp.

Risk Identification and Assessment Summary - Risk Map

Business Area		Financial	Reputation	Strategic	Technology	Operations	Human Resources	Environmental	FINAL RATING
INFRASTRUCTURE SUPPORT	Procurement								HIGH
	Facilities Management								LOW
	Construction								MODERATE
	Logistics: Transportation & Distribution								MODERATE
	Credit								MODERATE
	Organizational Protection								LOW
	Corporate Finance & Accounting								LOW
	Treasury/Investments/Foreign Exchange								MODERATE
	Marketing								LOW
	Governmental Affairs								MODERATE
	Public Relations								MODERATE
	New Product Development								HIGH
	Product Testing and Evaluation								HIGH
	Laboratory Management								MODERATE
	Quality Assurance								MODERATE
INFORMATION TECHNOLOGY	Information Technology Operations								HIGH
	Information Technology Development								HIGH
	Remote Data Center								MODERATE
	E-Business								MODERATE
	Web Operations								MODERATE
HUMAN RESOURCES	Organizational Development & Training								MODERATE
	Benefits Administration								MODERATE
	Recruiting								MODERATE
	H. R. Regulatory Compliance								LOW
	Labor Relations								MODERATE
	Compensation								MODERATE

RISK RATING LEGEND:

HIGH

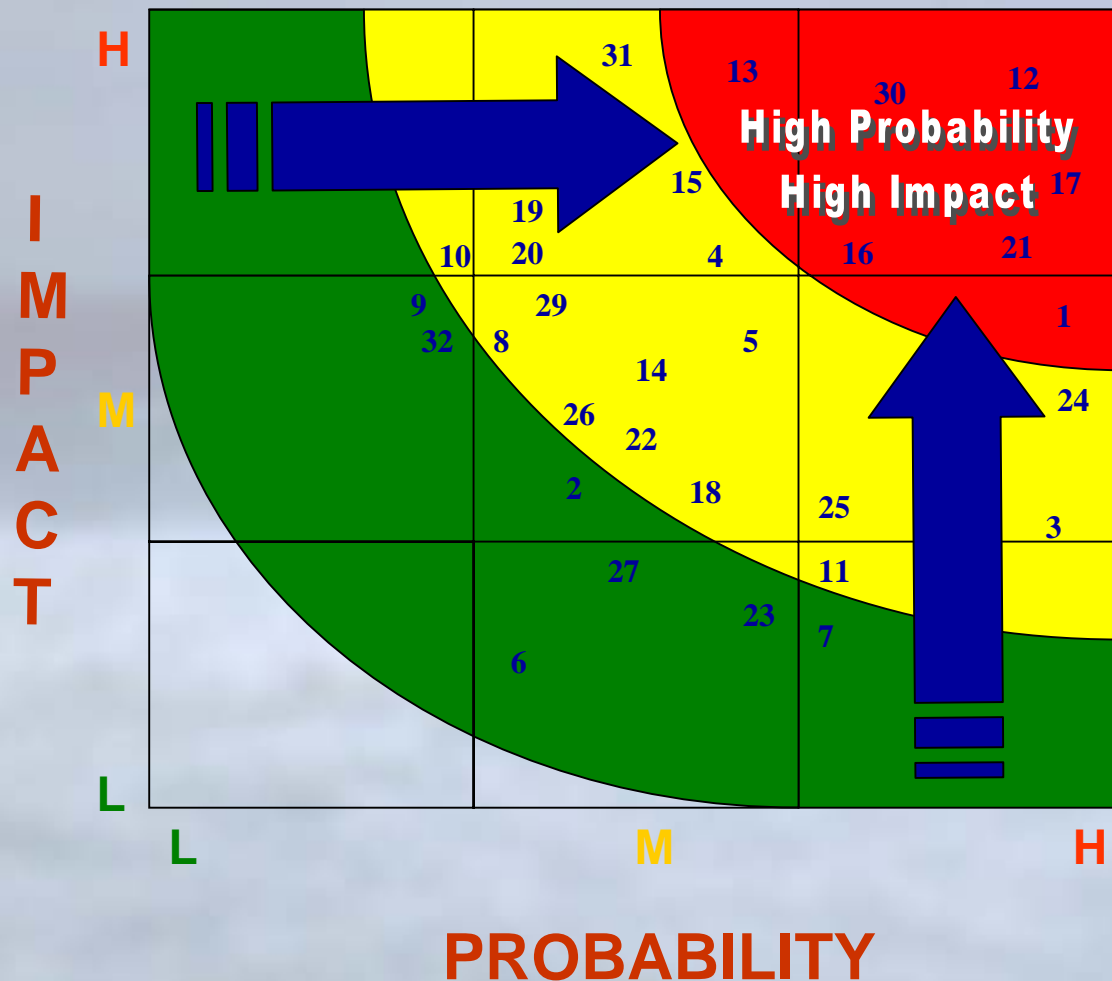
MODERATE

LOW

RISK MANAGEMENT APPROACH



Assessment Tool: Scatter Graph



Business Units

- 1 - Procurement
- 2 - Facilities Management
- 3 - Construction
- 4 - Logistics
- 5 - Credit
- 6 - Organizational Protection
- 7 - Corporate Finance & Accounting
- 8 - Treasury/Investment/FX
- 9 - Marketing
- 10 - Governmental Affairs
- 11 - Public Relations
- 12 - New Product Development
- 13 - Product Testing & Evaluation
- 14 - Laboratory Management
- 15 - Quality Assurance
- 16 - IT Operations
- 17 - IT Development
- 18 - Remote Data Center
- 19 - E-Business
- 20 - Web Operations
- 21 - Data Security Administration

RISK MANAGEMENT APPROACH



Embracing the New Role of the Internal Auditor

Definition of Internal Auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It *helps an organization accomplish its objectives* by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

--The Institute of Internal Auditors

NAVFAC PILOT PROGRAM



Overview

- ❑ Pilot program centered around Enterprise-wide Risk Management Program currently used in private sector organizations.
- ❑ Objective was to provide value to the Command and meet the requirements of the Management Control Program.
- ❑ Pilot selection focused on a Command with many private sector type processes – the NAVFACENGCOM was chosen for the program.

NAVFAC PILOT PROGRAM



Lessons Learned

- ❑ Need early involvement of “*Top Leadership*”.
- ❑ *Timing* within the life of the organization is important.
- ❑ Need consistent *commitment* to the program.
- ❑ Need more intensive *training* prior to the facilitated risk identification session.

NAVFAC PILOT PROGRAM



Benefits to the Command

- ❑ Valuable process to *focus* management attention and create dialogue.
- ❑ Allowed focus on risk areas within the organization which are normally *hard to address*.
- ❑ Increased awareness of *interdependencies* and management systems.
- ❑ Expanded the scope of review to broader categories of risk *beyond financial*.
- ❑ The ultimate benefits will be realized by *implementation* of recommendations.

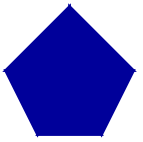
NAVFAC PILOT PROGRAM



Costs to the Command

- ❑ “New Process” - Integrated within our Command.
- ❑ Time - Involvement of Top Leadership in various activities from 1 day sessions to several half day meetings and on-line activities.

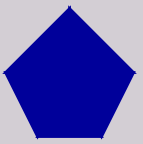
RISK MANAGEMENT OPPORTUNITIES



Another Look at the Risk Continuum



RISK MANAGEMENT OPPORTUNITIES



Success Stories -- Y2K from the DoD Perspective

Risk

Assessment

Probable collapse
of computer
systems and
services due to
technology flaw

Technology risk

Financial risk

Environmental risk

Strategic risk

**Human Resource
risk**

Controls

Assessment

Controls not in
place to
mitigate
problem;

→ Controls
redesigned to
mitigate/avoid
problems

External

Validation

DoD worked
with Audit
Community
throughout
control
improvement
process

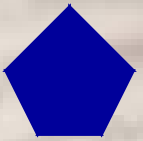
Risk

Mitigation/ Avoidance

Systems and
services
continued to
operate

RISK MANAGEMENT OPPORTUNITIES

Success Stories -- Centrally Billed Accounts



Risk

Assessment

Payments not made due to technology incapable of meeting new requirement

Technology risk

Operational risk

Financial risk

Reputation risk

Controls

Assessment

Controls in place not adequate to mitigate problem;

➔ Procedures and controls redesigned to mitigate risk

External

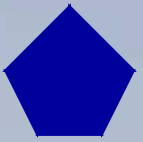
Validation

Monitoring of Performance Measures

Risk Mitigation/ Avoidance

Suspended payments, penalty interest, and payment time decreased

RISK MANAGEMENT OPPORTUNITIES



Risk Management: The Wave of the Future

- ❑ General Accounting Office – “Internal Control Management and Evaluation Tool” Exposure Draft (February 2001)
- ❑ American Institute of Certified Public Accountants and The Canadian Institute of Chartered Accountant – “Managing Risk in the New Economy: Risk is about putting the odds in your favor”

RISK MANAGEMENT OPPORTUNITIES

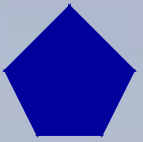
Making Risk Thinking a Common Practice



“If we just thought systematically before we implemented it, rather than after the fact, we could have prevented many problems...All the facts were known to us, we simply didn’t have a thinking process that would force and guide us to examine it early in the game.”

-- Excerpt from *The Goal*

RISK MANAGEMENT OPPORTUNITIES



Begin Assessing Your Business Risk Management Today

To obtain further information about Business
Risk Management or the Business Risk
Assessment Pilot Program, contact
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